March 2024
No.53 | Year 13

ECONOMIC OUTLOOK AND INFLATION FORECASTS

ECONOMIC OUTLOOK
AND INFLATION FORECASTS

March 2024

Members of the Monetary Policy Committee[1]

Full-Fledged Members

Rogério Lucas Zandamela
Governor (Chairman)

Gertrudes Adolfo Tovela
Board Member

Jamal Luís Omar
Board Member

Benedita Guimino
Board Member

Silvina de Abreu
Board Member

Maria Esperança Mateus Majimeja
Board Member

Permanent Guests

Umaia Mahomed
Adviser to the Governor

Ingunn Valvatne
Adviser to the Governor

Luísa Samuel Navele
Adviser to the Governor

Paula Libombo
Director of the Governor's Office

Luís Alberto Poio
Director of the Statistics and Reporting Department

Paulo Armando Mandlate
Director of the Foreign Exchange Licensing and Control Department

Carlos João Baptista
Director of the Economic Research Department

Pinho José Ribeiro
Director of the Markets and Reserves Management Department

Álvaro Vicente Loveira
Director of the Macroprudential Analysis Department

Dércio Eunício Mutimucuio
Director of the Prudential Supervision Department

[1] Internal and/or external guests may also participate in Monetary Policy Committee meetings, whenever necessary, at the invitation of the body's Chairman.

Foreword

The primary mandate of the Banco de Moçambique (BM) is to maintain price stability, so as to ensure the purchasing power of citizens. This implies keeping inflation low, at one digit, and stable in the medium term. The mandate to make this objective possible is exercised by the Monetary Policy Committee (MPC), a body composed of the Governor, Deputy Governor, BM Board Members, and permanent guests. The BM is also responsible for the supervision and stability of the financial system.

Price stability also fosters balanced and sustainable economic growth. Price stability reduces the degree of uncertainty of economic agents and makes it possible to ensure more attractive interest rates, enabling a favorable macroeconomic environment for savings and investment.

In order to ensure price stability, the MPC sets the monetary policy interest rate, referred to as the Mozambique Interbank Money Market Rate (MIMO). This rate, introduced on April 17, 2017, signals the monetary policy stance, and serves as an anchor for operations in the Interbank Money Market. It is expected that, through its influence on overnight interest rates formed in this market, the MIMO rate will affect inflation through the expectations, exchange rate and credit channels.

The decision on the MIMO rate is primarily based on inflation projections, always weighing the risks and uncertainties associated with such projections and the economic outlook. The MPC recognizes the delayed effect of its decisions on the economy, so its policy stance is based on the assessment of the economic and financial outlook, including risks and uncertainties, over eight quarters at least. Where inflation projections deviate materially from the primary monetary policy objective set for the medium term, the MPC shall take appropriate policy measures to reverse the trend.

The MPC convenes ordinarily once every two months, and extraordinarily whenever economic conditions so require. The schedule of regular MPC meetings is announced at the beginning of each year. However, the body may convene extraordinarily to deliberate on monetary policy aspects, whenever macroeconomic circumstances so dictate.

The BM values transparency in the communication of its monetary policy. Monetary policy decisions are announced publicly through an MPC Communiqué and a press conference, when called, led by the BM Governor, on the same day as the committee meeting.

The Economic Outlook and Inflation Forecasts (CEPI) Report is an additional means for communicating the Monetary Policy Committee's (MPC) decisions. The CEPI report discloses the factors and rationale behind measures taken by the MPC, broadening the public's understanding of the objectives and conduct of monetary policy.

Rogério Lucas Zandamela

Governor

Contents

Boxes

Tables

Charts

Decisions of the 2nd Session of the Monetary Policy Committee, of March 27, 2024

MONETARY POLICY COMMITTEE

COMMUNIQUÉ No. 2/2024

Maputo, March 27, 2024

Policy rate reduced to 15.75%

The Monetary Policy Committee (MPC) of the Banco de Moçambique decided to reduce the monetary policy rate, MIMO, from 16.50% to 15.75%. This decision is underpinned by the consolidation of prospects of single-digit inflation over the medium term, in a context where the assessment of the risks and uncertainties associated with inflation projections remain favorable.

Prospects of single-digit inflation remain unchanged over the medium term. In February 2024, annual inflation stood at 4.0%, following 4.2% in January. Core inflation, which excludes fruits and vegetables and administered prices, also eased. Prospects for single-digit inflation remain unchanged in the medium term, mainly reflecting the stability of the Metical and the impact of the measures taken by the MPC.

For the medium term, excluding liquefied natural gas (LNG), the prospects are for moderate economic growth. In the fourth quarter of 2023, gross domestic product (GDP) excluding LNG is estimated to have grown by 3.6%, following 3.3% in the previous quarter. Including LNG, GDP accelerated by 5.4%. In the medium term, excluding LNG production, economic activity is expected to continue to recover, despite uncertainties associated with the impact of climate shocks on agricultural production and various infrastructure.

Pressure on domestic public debt remains high. Domestic public debt, excluding loan and lease agreements and overdue liabilities, stands at 344.0 billion meticais, a 31.7 billion increase compared to December 2023.

The assessment of the risks and uncertainties associated with inflation projections remains favorable. Possible factors restraining inflation in the medium term include the fiscal consolidation efforts and a milder impact of geopolitical conflicts on the logistics supply chain and on commodity prices in the global market.

The MPC will continue with the process of normalizing the MIMO rate in the medium term. The pace and magnitude will continue to depend on inflation prospects, as well as the assessment of the risks and uncertainties associated with medium-term projections.

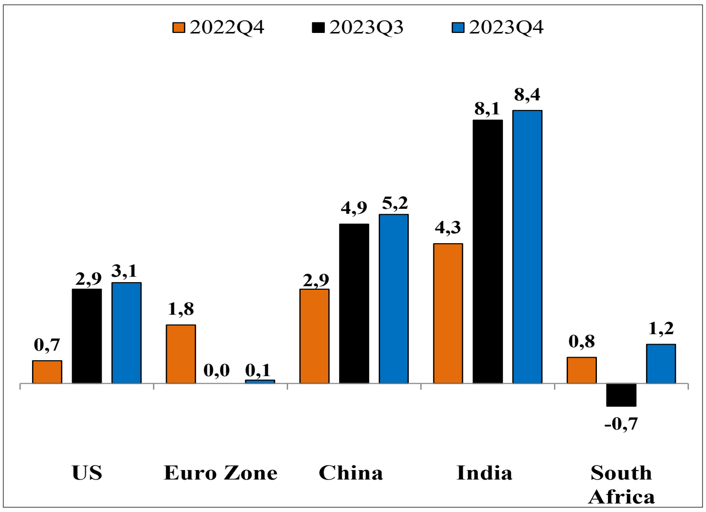
The next regular MPC meeting is scheduled for May 29, 2024.

Rogério Lucas Zandamela
Governor

Chapter I. Recent Developments in the International Economy and Forecasts

The economic outlook points to global economic growth at 2023 levels and slowing inflation in 2024 and 2025. Meanwhile, risks and uncertainties remain high, amid the prevalence of geopolitical conflicts in the Middle East (Red Sea) and Europe (Russia-Ukraine), which, should they spread, may result in a surge in inflation.

Chart 1-1: Annual Real GDP Growth (%)



Source: Trading Economics

Table 1-1: Annual GDP Growth Projections – 2024 and 2024 (%)

	Estimate	Projections		Difference from Oct/23	
	2023	2024	2025	2024	2025
World Output	**3,1**	**3,1**	**3,2**	**0,2**	**0,0**
Advanced Economies	**1,6**	**1,5**	**1,8**	**0,1**	**0,0**
United States	2,5	2,1	1,7	0,6	(0,1)
Euro Area	0,5	0,9	1,7	(0,3)	(0,1)
Germany	(0,3)	0,5	1,6	(0,4)	(0,4)
Japan	1,9	0,9	0,8	(0,1)	0,2
United Kingdom	0,5	0,6	1,6	0,0	(0,4)
Emerming Market & Developing Economies	**4,1**	**4,1**	**4,2**	**0,1**	**0,1**
China	5,2	4,6	4,1	0,4	0,0
India	6,7	6,5	6,5	0,2	0,2
Brazil	3,1	1,7	1,9	0,2	0,0
Sub-Saharan Africa	**3,3**	**3,8**	**4,1**	**(0,2)**	**0,0**
South Africa	0,6	1,0	1,3	(0,8)	(0,3)

Source: IMF, World Economic Outlook (January 2024)

1.1. Economic Activity and Inflation

In the fourth quarter of 2023, economic activity improved for Mozambique's major trading partners.

In advanced economies, the United States of America (U.S.) growth stood at 3.1% year-on-year, following 2.9% in the previous quarter, driven by fiscal stimulus. The Eurozone economy expanded by 0.1% after stagnating in the previous quarter, reflecting an increase in government expenditures. Meanwhile, the negative effects of the Russia-Ukraine war, and the maintenance of tight monetary conditions, continue to hamper the recovery of the Eurozone (Chart 1-1).

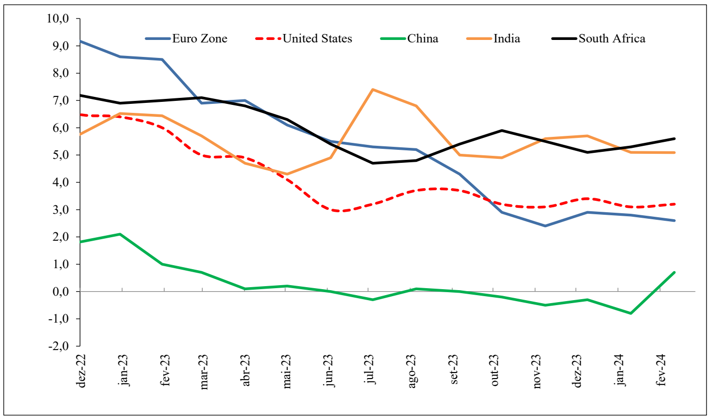
Regarding emerging market economies, the recovery of the Chinese economy is prominent, having grown by 5.2%, 30 basis points (bp) more compared to the previous quarter, driven by fiscal stimulus. In the same vein, India also stood out, with a growth of 8.4%, and South Africa, with 1.2%, after a contraction of 0.7% in the previous quarter.

For 2024 and 2025, the outlook is for global economic growth to remain at 2023 levels, according to January 2024's edition of the World Economic Outlook (WEO).

Global growth remains unchanged at 3.1%, mainly due to the recovery of the German economy, amid forecasts of a performance downturn in the US and Chinese economies.

However, it should be noted that, compared to that published in the October 2023's edition, this

Chart 1-2: Annual Inflation Developments (%)



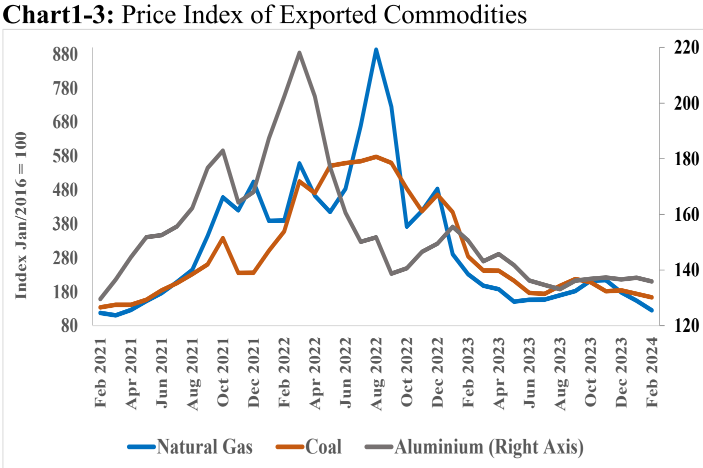
Source: Trading Economics

Table 1-2: Average Annual Inflation Outlook (%)

Region	2022	Estimate 2023	Projections 2024	Projections 2025
World	**8,7**	**6,8**	**5,8**	**4,4**
Advanced Economies	**7,3**	**4,6**	**2,6**	**2,0**
Emerging Market & Developing Countries	**9,8**	**8,4**	**8,1**	**6,0**

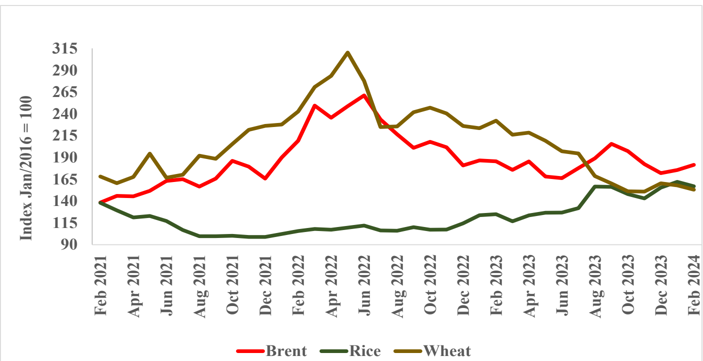
Source: IMF, World Economic Outlook (January 2024)

Chart1-3: Price Index of Exported Commodities



Source: IMF Primary Commodity Index (March 2024)

Chart 1-4: Price Index of Imported Commodities



Source: IMF Primary Commodity Index (March 2024)

global economic growth projection for 2024 (3.1%) is up 20 bp, as shown in Table 1-1.

The trend of slowing annual inflation in advanced and emerging economies continues.

In February 2024, annual Eurozone inflation decelerated to 2.6%, following 2.8% in the previous month, reflecting the reduction in energy prices (Chart 1-2). India experienced a similar behavior, with annual inflation dropping to 5.1%, favored by lower fuel prices.

Meanwhile, in the same period, annual inflation picked up in the other economies, especially China, which after four successive months of deflation, recorded annual inflation of 0.7%.

According to January 2024's edition of the WEO, prospects point to continued slowing annual inflation over 2024 and 2025. This behavior is underpinned by the prevalence of restrictive monetary conditions, particularly in advanced economies, where inflation levels will remain above the central banks' target of 2% for 2024 (Table 1-2).

1.2. Prices of Key Commodities

Apart from brent, prices of key commodities traded by the country declined.

Among the export goods, the drop in the price of natural gas (-18.5%) and thermal coal (-5.8%) stands out, when compared to that recorded in January 2024's MPC session (Chart 1-3).

Regarding imported commodities, the increase in the price of brent (3.0%) and the decreases in the prices of wheat (-3.0%) and rice (-3.1%), compared to the previous MPC session levels, are highlighted. The increase in the price of brent is driven by OPEC+ supply cuts and the risks and uncertainties associated with the Middle East crisis and the Russia-Ukraine conflict (Chart 1-4).

Chapter II. Recent Developments in the Domestic Economy and Near-Term Prospects

In the fourth quarter of 2023, real GDP expanded by 5.4%, driven by the improvement in economic activity in most sectors, particularly agriculture, fishing, and transport and communications services. In the near term, excluding liquefied natural gas (LNG) production, a gradual recovery of economic activity is expected, reflecting the prospects for improved performance of mega projects and the tertiary sector, despite the impacts of extreme weather events.

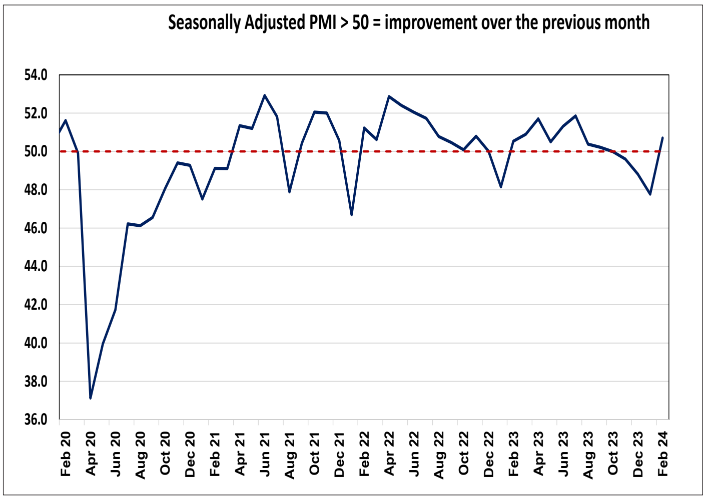
In February 2024, annual inflation decelerated to 4.0%, reflecting the slowdown in food and administered prices. In the near term, the outlook points to a slight acceleration in inflation, spurred by the effects of climate shocks and the pass-through of rising fuel prices and toll tariffs in South Africa.

Table 2-1: Real GDP by Sector - Annual Change (%)

Sectors	2022	2023			
	Year	Q3	Q4	Contr./Q4 (pp)	Year
Primary Sector	**6,0**	**12,5**	**11,3**	**3,2**	**10,2**
Agriculture	5,5	3,5	4,7	0,9	3,7
Fishing	1,3	2,7	21,0	0,3	2,2
Mining	9,0	43,2	25,9	2,0	35,9
Secondary Sector	**0,6**	**0,8**	**0,3**	**0,0**	**-2,7**
Electricity, Gas and Water	4,1	1,4	3,2	0,1	2,2
Manufacturing	-0,7	1,1	-1,8	-0,1	-4,4
Construction	1,0	-1,4	5,3	0,1	-3,3
Tertiary Sector	**4,1**	**3,1**	**3,6**	**1,7**	**3,6**
Trade and Services	2,7	2,3	2,1	0,2	0,8
Accommodation and Catering	10,7	3,0	11,8	0,2	8,2
Transport and Communication	8,9	2,6	4,9	0,6	5,4
Financial Services	3,1	4,1	4,2	0,2	4,6
Public Adm. Education and Health	2,6	3,0	2,6	0,3	3,3
Other Sectors	0,9	4,0	2,9	0,2	3,4
GDP at factor cost	**4,3**	**6,3**	**5,5**	**5,0**	**5,1**
Tax on products	3,3	3,6	3,9	0,4	4,6
GDP	**4,2**	**5,9**	**5,4**	**5,4**	**5,0**

Source: INE (2024=100)

Chart 2-1: Purchasing Managers' Index (PMI)



Source: HIS, Markit

2.1. Near-Term Economic Activity

In the fourth quarter of 2023, the real GDP growth of 5.4% was recorded, after 5.9% in the previous quarter. This performance reflects the improvement in economic activity in most sectors, particularly the contribution of agriculture (0.9 pp), fishing (0.3 pp) and transport and communications services (0.6 pp) (Table 2-1).

In cumulative terms, real GDP grew by 5.0% in 2023, compared to 4.2% in 2022.

In the near term, a slight acceleration in GDP growth is expected, excluding LNG production. This forecast is supported by the prospects for improving the performance of the extractive industry and the tertiary sector, despite the occurrence of extreme weather events.

Recent developments in the Purchasing Managers' Index (PMI) support the gradual improvement in economic activity in the near term, pointing to an increase in business confidence about future activity, amid increased sales volumes and new orders (Chart 2-1).

2.2. Domestic Public Debt

Domestic public indebtedness has increased. The cumulative amount of domestic loans incurred between December 2023 and March 2024 increased by about 31,663 million

Table 2-2: Domestic Public Debt (millions of meticais)*

Domestic Public Debt (in MZN million)					
	Use of T-Bills	Treasury Bonds	In the BM	Total Debt	Debt as % of GDP
Dec – 2020	44.220	88.100	54.885	187.205	18,1%
Dec – 2021	59.399	102.415	57.009	218.823	19,6%
Dec – 2022	69.872	142.056	63.186	275.114	23,4%
Nov – 2023	85.492	155.490	92.510	333.492	25,3%
Dec – 2023	85.536	155.490	71.314	312.341	23,7%
Jan – 2024	84.507	161.207	75.556	321.270	20,9%
Feb – 2024	87.507	161.997	81.292	330.797	21,5%
Mar – 2024	94.107	168.604	81.292	344.004	22,4%
Flow (Dez/23 - Mar/24)	**8.571**	**13.114**	**9.978**	**31.663**	

Source: BM and BVM
*As at March 25, 2024

meticais, amounting to a total stock of domestic debt of about 344,004 million meticais. Among the main instruments used to finance the treasury deficit, treasury bonds and advances by the BM stand out (Table 2-2).

2.3. International Reserves

The country's international reserves remain at comfortable levels. The country's external position, as measured by gross international reserves, remains at comfortable levels, with a cumulative balance of about USD 3,614 million as of March 22, 2024, which is sufficient to ensure approximately 5 months of imports of goods and services, excluding megaprojects.

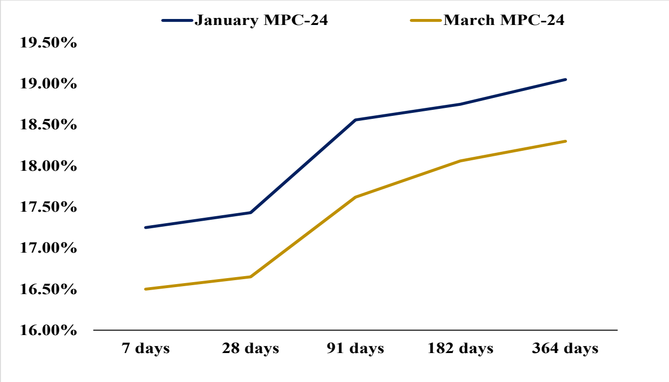
Box 1: Monetary and Financial Developments

I. Interest Rate Developments

a) Money Market Interest Rates

Between the January and March 2024 MPC sessions, the money market yield curve declined. Interest rates on all maturities in the market fell between 75 and 94 bp, in line with the downward adjustment of the MIMO policy rate (Chart 1).

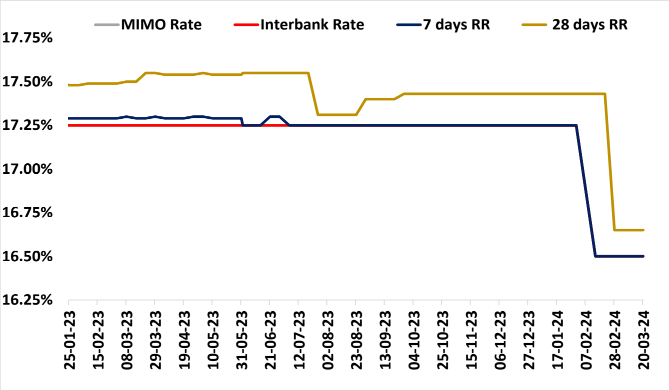
Chart 1: Money Market Yield Curve



Source: BM, 2024

Reduction of the bank's intervention interest rates for the shortest maturities. The 7-day MIMO, effective MIMO (overnight swaps) and reverse repo rates fell by 75 bp to 16.50%, while the 28-day reverse repo rate fell by 78 bp to 16.65% (Chart 2).

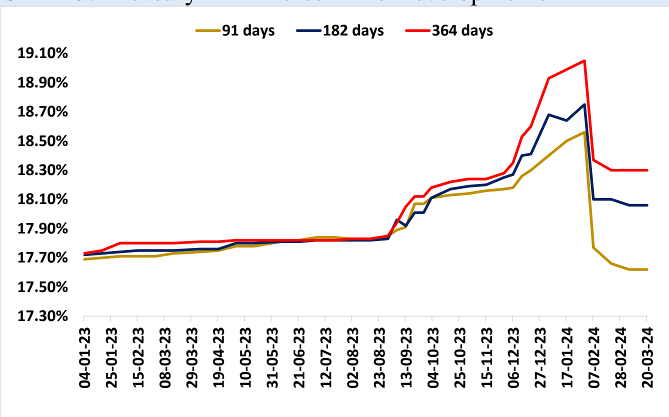
Chart 2: IMM Interest Rate Developments



Source: BM, 2024

Reduction in interest rates on Treasury Bills (T-Bill). T-Bill interest rates for the three reference maturities (91, 182, 364 days) dropped between 69 and 94 bp to 17.62%, 18.06% and 18.30%, respectively. It should be noted that the T-Bill interest rate for the 1-year (364-day) maturity stood 180 bp above the MIMO policy rate (Chart 3).

Chart 3: Treasury Bill Interest Rate Developments

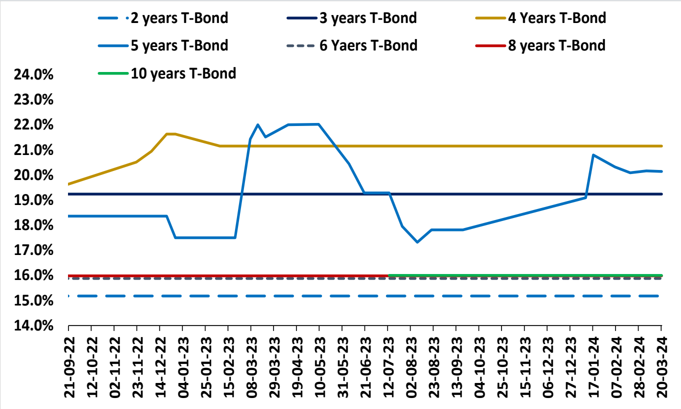


Source: BM, 2024

b) Treasury Bond (T-Bond) Interest Rates

Reduction of interest rates on Treasury Bonds. Between January and March 2024, the State issued 5-year T-Bonds, and the weighted average interest rate fell by 64 bp to 20.16% (Chart 4).

Chart 4: Treasury Bond Interest Rate Developments

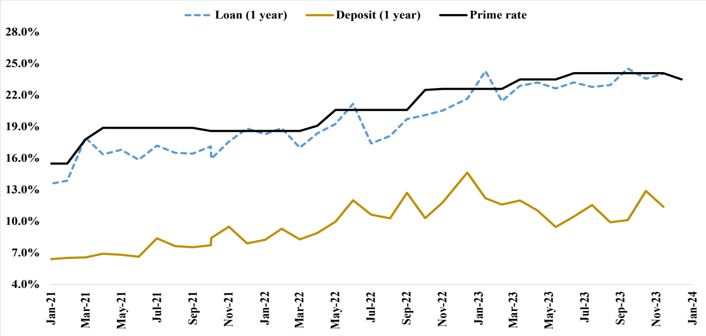


Source: BM, 2024

c) Retail Interest Rates

Interest rates on one-year retail loans and deposits decreased. Information reported as of December 2023 shows that the average interest rates on loans and deposits decreased by 40 and 150 bp to 24.00% and 11.40%, respectively, resulting in an increase in the spread between the two active and passive rates (Chart 5).

Chart 5: Developments in Retail Interest Rates and the Prime Rate

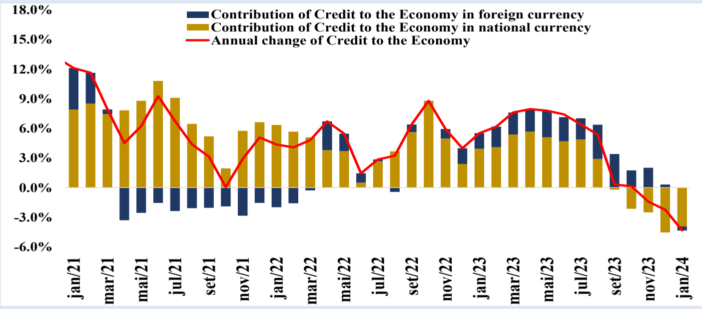


Source: BM, 2024

II. Development in Credit to the Economy

Credit to the economy contracted in January 2024. In January, credit contracted by 4.3%, following a 2.2% contraction in December 2023. The reduction in credit is mainly explained by the prevalence of restrictive monetary conditions.

Chart 6: Developments in Credit to the Economy



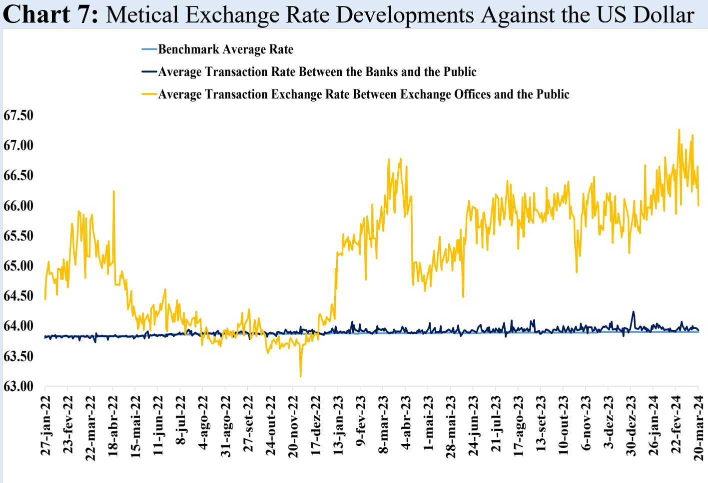
Source: BM, 2024

III. Exchange Rate Developments

a) Metical Exchange Rate Against the US Dollar

The Metical (MZN) remains stable against the US Dollar (USD). From January to March 2024, the reference exchange rate of MZN to USD remained unchanged at MZN/USD 63.90 and the effective exchange rate resulting from operations between commercial banks and the public rose from MZN/USD 64.04 in January to MZN/USD 63.97 in March. In the same period, in the exchange bureaus segment, the Metical exchange rate rose from MZN/USD 66.59 to MZN/USD 66.58 (Chart 6).

Chart 7: Metical Exchange Rate Developments Against the US Dollar

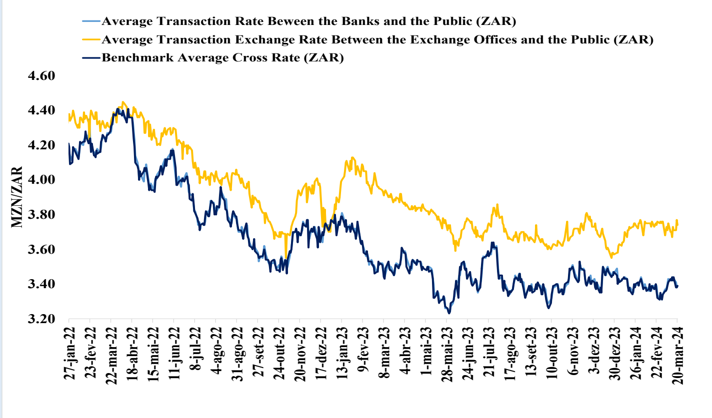


Source: BM, 2024

b) Metical Exchange Rate Against the Rand

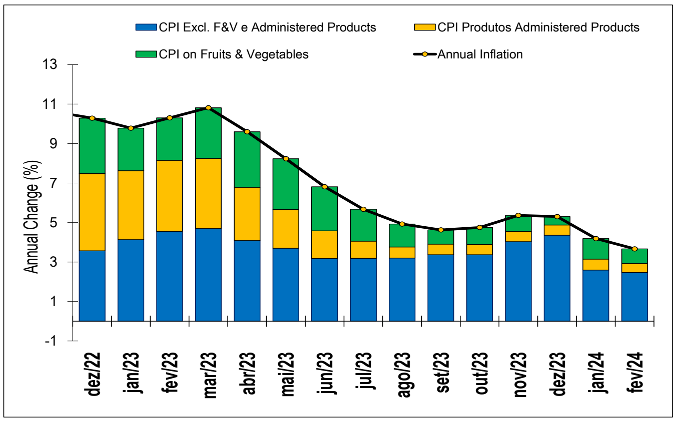
The Metical remains stable against the Rand (ZAR). In the reporting period, the reference exchange rate of the MZN against the ZAR increased from MZN/ZAR 3.41 to MZN/ZAR 3.44 and that of commercial banks with the public increased from MZN/ZAR 3.41 to MZN/ZAR 3.43. The exchange rate of exchange bureaus for the public rose by 4 cents to MZN/ZAR 3.71 (Chart 7).

Chart 8: Metical Exchange Rate Developments Against the US Dollar



Source: BM, 2024

Chart 2-2: Annual Inflation Components



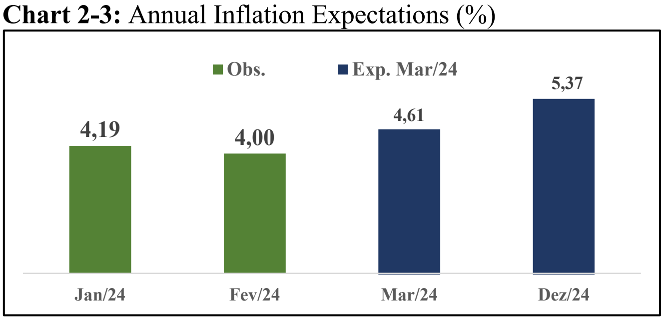
Source: INE

Table 2-3: Core Inflation (%) – Mozambique CPI

	Dec-23	Jan-24	Feb-24
CPI Mozambique	**5,30**	**4,19**	**4,00**
Food	**9,13**	**7,05**	**6,89**
Cereals and by products	4,15	5,29	5,99
Fruits and Vegetables	8,78	9,79	7,45
Administered	**2,57**	**2,71**	**2,19**
Liquid Fuel	-0,14	0,41	0,41
CPI x Fruit & Veg.	3,68	3,62	3,60
CPI X Admin.	4,71	4,45	4,40
CPI x Frut. & Veg. & Admin.	4,05	4,52	4,14

Source: INE

Chart 2-3: Annual Inflation Expectations (%)



Source: BM

2.4. Recent Inflation Developments and Near-Term Prospects

In February 2024, annual inflation decelerated due to the combined effect of the slowdown in food and administered prices. Meanwhile, near-term prospects point to a slight acceleration.

Annual inflation fell from 4.19% in January to 4.00% in February. These developments reflect the slowdown in food prices, particularly fruits and vegetables, whose prices decreased from 9.79% to 7.45% (Chart 2-3 and Table 2-3)

Core inflation has slowed. Excluding fruits and vegetables and administered prices, inflation dropped from 4.52% in January to 4.14% in February. This behavior is mainly due to the slowdown in prices from the furniture, clothing, and transport divisions (Table 2-3 and Chart 2-3).

The near-term outlook points to a slight acceleration in inflation. This forecast stem from the impact of the effects of climate shocks and rising fuel prices and toll tariffs in South Africa. Risks to the projections include the potential worsening of fiscal pressure, the potential higher severity of climate shocks, and potential adjustments in telecommunications and fuel prices.

Economic agents support the prospects for a slight acceleration in inflation. The macroeconomic expectations of economic stakeholders suggest an acceleration in inflation over the near term, believing that it could stand at 5.37% in December 2024 (Chart 2-4).

Chapter III. Inflation Prospects and Economic Activity in the Medium Term

Prospects for single-digit inflation remain unchanged over the medium term, mainly reflecting the stability of the Metical and the impact of the measures taken by the MPC. Economic activity is also expected to continue expanding moderately, driven by the performance of the extractive industry. Excluding LNG projects, the recovery trend of economic activity is expected to continue, despite the uncertainties as to the impacts of climate shocks on agricultural production and various infrastructures.

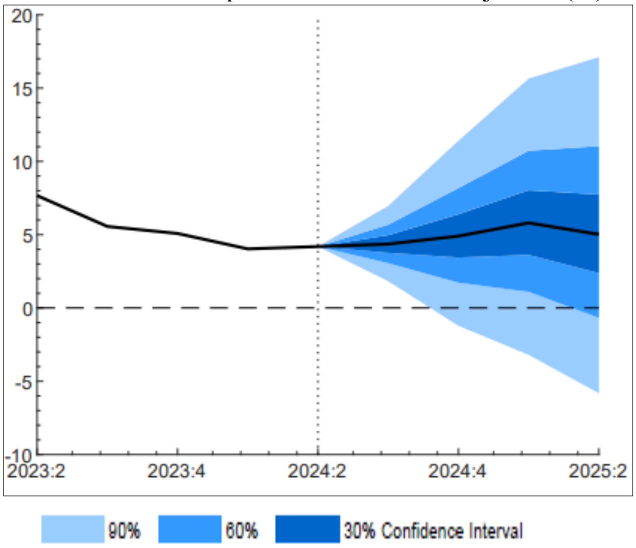
In light of this macroeconomic framework and considering the risks and uncertainties underlying the inflation projections, the MPC decided to reduce the MIMO policy rate from 16.50% to 15.75%.

Table 3-1: External Assumptions

	2023Q4	2024Q4	2025Q4
USA Real GDP (YoY %)	3,1	0,7	1,7
MPC January/2024	3,1	0,4	2,1
SA Real GDP (YoY %)	1,0	0,9	1,1
MPC January/2024	1,0	0,9	1,2
USA Inflation (YoY %)	3,2	2,7	2,4
MPC January/2024	3,2	2,5	2,2
SA Inflation (YoY %)	5,5	4,7	4,7
MPC January/2024	5,5	4,5	4,6
Brent price (USD)	82,7	82,4	85,5
MPC January/2024	82,7	81,9	85,4
Food price (%)	-11,2	1,8	3,6
MPC January /2024	-10,6	1,9	3,5

Source: GPMN

Chart 3-1: Mozambique Annual Inflation Projection (%)



3.1.Assumptions for Medium-Term Projections

The medium-term macroeconomic projections (2024-2025) are based on the following assumptions:

a) External

- Pressure on brent prices in 2024 and food prices in 2025 (Table 3-1). This pressure mainly reflects: (i) the persistence of conflicts in the Middle East and Russia-Ukraine, and attacks on cargo ships in the Red Sea, and (ii) climate shocks.

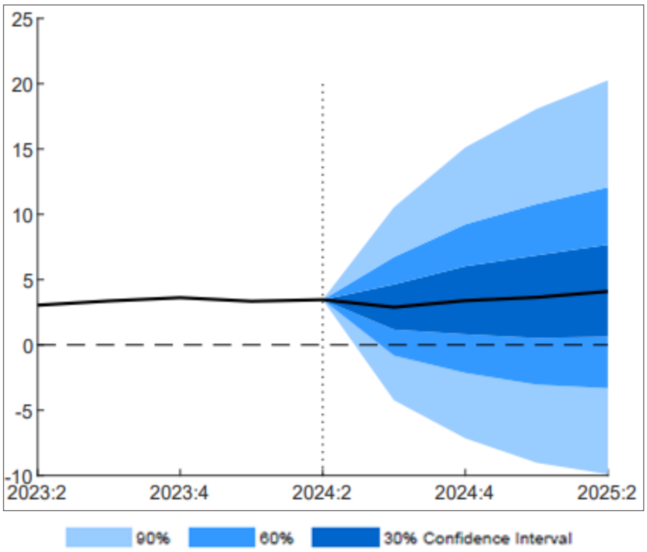
b) Domestic

- Ongoing high pressure on the State Budget;
- Ongoing exchange rate stability of the Metical against the US Dollar;
- Occurrence of climate shocks;
- Prevalence of military instability in Cabo Delgado.

3.2.Medium-Term Inflation Projections and Associated Risks

In view of the above assumptions, prospects for single-digit inflation over the medium term are consolidated (Chart 3-1), mainly due to the stability of the Metical and the impact of the measures taken by the MPC.

Chart 3-2: Mozambique Annual Real GDP Growth Projection (Excluding Gas) (%)



With regard to economic activity, excluding the LNG sector, moderate economic growth is expected to continue (Chart 3-2), particularly due to the performance of the primary (agriculture and coal) and tertiary (services) sectors, despite potential severe weather events and their effects on agricultural production and various infrastructures.

The assessment of the risks and uncertainties associated with inflation projections remains favorable over the medium term. Possible factors restraining inflation in the medium term include the fiscal consolidation efforts and a milder impact of geopolitical conflicts on the logistics supply chain and on commodity prices in the global market.

3.3. Monetary Policy Decision

The MPC of the BM decided to reduce the MIMO policy rate from 16.50% to 15.75%.

This decision is underpinned by the consolidation of prospects of single-digit inflation over the medium term, in a context where the assessment of the risks and uncertainties associated with inflation projections remain favorable.

The MPC also decided to:

- Reduce the interest rate on the Standing Lending Facility (SLF) by 75 basis points to **18.75%**;
- Reduce the interest rate on the Standing Deposit Facility (SDF) by 75 basis points to **12.75%**; and
- Keep the Reserve Requirement ratios for liabilities in domestic and foreign currencies unchanged at 39.00% and 39.50%, respectively.